



Moody's Investors Service

Credit Opinion: Amlin PLC

Global Credit Research - 08 Dec 2009

United Kingdom

Ratings

Category	Moody's Rating
Rating Outlook	STA
Subordinate	Baa2

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Key Indicators

[1] Amlin PLC

	2008	2007	2006	2005	2004
Total Assets (£ Mil.)	4,118	3,580	3,447	3,607	2,336
Equity (£ Mil.)	1,216	1,052	936	785	449
Net Income (£ Mil.)	80	353	268	140	91
Gross Premiums Written (£ Mil.)	1,034	1,045	1,114	994	946
Net Premiums Written (£ Mil.)	916	938	1,014	829	790
High Risk Assets % Invested Assets	10.5%	11.6%	12.2%	5.5%	6.9%
Reinsurance Recoverable and Goodwill % Equity	32.5%	26.0%	38.4%	77.4%	71.6%
Gross Underwriting Leverage (1 yr.)	2.2x	2.3x	2.7x	3.4x	4.6x
Return on Average Equity (1 yr.)	7.1%	35.5%	31.1%	22.5%	21.6%
Sharpe Ratio of Return on Revenue (5 yr.)	190.4%	215.9%	-	-	-
Adv. (Fav.) Loss Dev. % Beg. Reserves (1 yr.)	-10.6%	-10.3%	-6.3%	-10.2%	-6.8%
Financial Leverage	20.7%	22.0%	24.3%	37.1%	31.0%
Earnings Coverage (1 yr.)	6.5x	21.9x	14.7x	17.8x	23.2x

[1] Information based on IFRS financial statements

Opinion

SUMMARY RATING RATIONALE

The A1 insurance financial strength rating (IFSR) on Amlin's main operating entity, Lloyd's syndicate 2001, reflects the Group's good franchise, strong profitability in recent times via syndicate 2001, prudent reserving, excellent asset quality and good financial flexibility. Furthermore, the creation of Amlin Bermuda (A2 IFSR), and acquisition in July 2009 of Fortis Corporate Insurance- subsequently renamed Amlin Corporate Insurance (ACI)- mean the Group has become more diversified and less dependent on Lloyd's for revenue. Offsetting these strengths are the inherent volatility and cyclicity in a number of business lines of the Group the potential volatility of which increased following the creation of Amlin Bermuda for which there is inherent operational risk and which is orientated towards catastrophe business with minimal reinsurance protection. The acquisition of ACI will help dilute the meaningful amount of catastrophe business in the Group, but it brings some integration challenges and inherent execution risk together with some underwriting challenges, and will lead to an initial deterioration in a number of Moody's capitalisation metrics.

Amlin plc (Amlin) is a London headquartered, publicly traded (LSE: Amlin) holding company which underwrites specialty insurance and reinsurance principally through syndicate 2001 (Amlin UK, Amlin London, and Anglo French Underwriters (AFU) which was acquired in November 2008), Amlin Bermuda Limited which began trading as a class 4 Bermudian insurer in December 2005, and ACI. At YE08, Amlin's gross premium written, the majority conducted in the US and the UK, consisted of insurance (56%) and reinsurance (44%) risks via its then Reinsurance and Property & Casualty (Non-Marine, 43% of total GWP), Marine (18%), Aviation (5%), Amlin UK (15%), and Amlin Bermuda (19%) divisions. Reinsurance and Property & Casualty, Marine and Aviation business is now part of Amlin London.

Credit Strengths

Credit strengths for Amlin include:

- A leading London market operation and reinsurance group via Lloyd's syndicate 2001, with increased diversity now via Bermudian operation and ACI.
- Strong profitability in recent years reflective of the significant out-performance of syndicate 2001.
- Prudent reserving.
- Conservative investment policy.

Credit Challenges

Credit challenges for Amlin are:

- Underwriting volatility and cyclicity inherent in a number of the Group's specialty insurance and reinsurance lines.
- High exposure to natural catastrophe perils.
- ACI acquisition brings some integration challenges and a number of underwriting challenges, and will initially pressure a number of Moody's financial metrics.
- Inherent operational risk with regard to Amlin Bermuda.

Rating Outlook

The rating outlook is stable

What Could Change the Rating - Up

- Significant and consistent out-performance relative to peers.
- Enhanced market position through, for example, successful build-out of operational platform in Bermuda, and successful development of ACI.
- Gross underwriting leverage of below 2.5x, together with a stable reserve position.
- Consistently modest financial leverage (adjusted debt to capital below 25%) through the cycle.

What Could Change the Rating - Down

- Under-performance relative to peers.
- Reduction in shareholders' equity of >10% over a 12 month period due to catastrophe losses or poor operating results.
- Adjusted financial leverage meaningfully above 25%.
- Unsuccessful integration of ACI.

Notching Considerations

The four notch spread between Amlin's Baa2 subordinated debt ratings and the A1 IFSR on Syndicate 2001, which continues to be Amlin's main operating entity, is consistent with Moody's typical notching practice for European-based insurance holding companies.

Amlin subordinated debt ratings were upgraded on 13th March 2008 reflecting the improved stand-alone credit fundamentals- ie excluding any benefit from the presence of the Lloyd's Central Fund- of Lloyd's syndicate 2001, and the Group's developing Bermudian business. Policyholders of syndicate 2001 continue to benefit from the existence of Lloyd's Central Fund although, as one of the strongest syndicates in the market, the extent of support factored into the IFSR is less than before.

Recent Results and Developments

At YE08, Amlin reported net income of £80m (YE07: £353m) and shareholders' equity of £1,216m (£1,052m). At H109, Amlin reported net income of £167m (H108: £108m) and shareholders' equity of £1,297m (H108: £1,098m). At H109, Amlin's estimated net claims from 2008's Hurricanes Ike and Gustav have remained broadly unchanged at \$300m while Amlin reported in November 2009, via its interim management statement, that there was no major insured catastrophe event in the period from July 1 2009, with the largest cat loss incurred by the Group being \$19m (net) from European storm Klaus in January. The Group has also reported that its investment return for the ten months to October 2009 was 5.3% compared to -1.2% in the equivalent period during 2008.

In June 2009, Amlin announced its proposed acquisition of ACI for EUR 350m from the State of the Netherlands. The acquisition was completed on July 22 and was funded by cash and a £75m share placement. ACI is a Benelux marine orientated commercial lines insurer, which wrote EUR 763m of gross premium written (GPW) in 2008, compared to Amlin's 2008 GPW of around EUR 1.3bn (£1,034m). Around 63% and 36% of ACI's business is generated in the Netherlands and Belgium respectively and its main business lines are marine (49%), property (21%), liability (15%), and fleet motor (8%).

The completion of the Group's first special purpose Lloyd's syndicate (SPS), syndicate 6106, was announced in December 2008. The SPS was established to write a 15% quota share contract of the excess of loss reinsurance account of syndicate 2001.

DETAILED RATING CONSIDERATIONS

We rate Amlin Lloyd's syndicate 2001- the main operating entity of the group- A1 for insurance financial strength. We also rate Amlin Bermuda Limited, which has been created relatively recently, A2 for insurance financial strength.

Insurance Financial Strength Rating

The key factors currently influencing Amlin's ratings and outlook are:

Factor 1 - Market Position, Brand and Distribution: A

The market share of Amlin, whose business in 2008 was split around 56% insurance, 44% reinsurance, is small in the primary insurance markets in the UK, US, and Continental Europe, and in reinsurance, although its European insurance footprint has recently been increased by the ACI acquisition. However, we believe that Amlin has a good franchise, being a leading London market (re)insurance Group via Lloyd's syndicate 2001, which, excluding ACI, accounts for around 72% of Group GPW written to-date in 2009. Syndicate 2001 leads over half the business it writes and benefits from the recently improved franchise of Lloyd's, one of the world's largest insurance and reinsurance players. Lloyd's size, together with the name and extensive licensing arrangements, attracts business and enables a syndicate like 2001 to write larger amounts of certain business lines than it might otherwise have been able to do were it to operate outside Lloyd's.

We also note ACI's leading market positions in the Netherlands and Belgium in its lines of business which should enhance Amlin's presence in continental Europe. However, we also believe that Amlin will face some integration challenges and inherent execution risk with regard to what is a relatively large acquisition in business terms- ACI's 2008 GPW represents around 35% of that of Amlin and ACI on a combined basis. In particular, we note that ACI relies on the Fortis Group for a range of operational services, and Amlin will need to transition away from this. However, we do not believe that integration costs will be meaningful within the context of Group earnings, and note that the integration process should be aided by Amlin's expertise and resource in many of ACI's lines of business including marine.

With regard to distribution, Amlin is almost exclusively reliant on brokers with little business written directly, which will remain the case following the ACI acquisition.

Factor 2 - Business and Geographic Diversification: A

Amlin's overall business and geographic diversification is viewed as good and recently improved by the ACI acquisition. The majority of the book is insurance business, albeit specialist in nature, complemented by a meaningful amount of reinsurance business, and overall there is a strong and deliberate orientation towards short-tail risks. Within the overall business there is a good spread of specific classes, covering non-marine, marine, aviation and motor, but no life risk, although on an ACI pro-forma 2008 GPW basis the proportion of marine business increases significantly from 8% to 23%. Furthermore, following the creation of Amlin Bermuda, which accounts for a sizeable proportion of group net assets, and the acquisition of ACI, Amlin is no longer solely reliant on Lloyd's for revenue, although syndicate 2001 is still a significant contributor to Group premiums and earnings. These positives are off-set to an extent by the underwriting volatility and cyclical nature inherent in many of the Group's business lines, although ACI will increase non-catastrophe and lower volatility lines of business helping dilute the meaningful amount of catastrophe reinsurance business the Group underwrites. On a pro-forma basis, catastrophe reinsurance reduces from 29% to 18%.

Factor 3 - Asset Quality: Aa

Amlin's asset quality is viewed as excellent. Amlin adopts a cautious investment strategy with around 90% of invested assets held in highly rated fixed interest securities, cash and other cash-like asset classes. At H109, high risk assets were comprised of equities, property and sub-investment grade debt at around 6%, 2%, and 1% of total invested assets. Amlin's fixed income portfolio at H109 was relatively conservative with 42% government/agency/supranational, 29% pooled vehicles (cash and bonds), 15% corporates, with smaller amounts of MBS (7%), ABS (4%), and ILS (2%). Excluding pooled debt funds, around 73% of the fixed income portfolio is rated Aaa/AAA. We also note the relatively conservative nature of ACI's investment portfolio which has no equities exposure and is dominated by fixed income securities orientated towards government holdings.

Amlin's reinsurance recoverables as a % of shareholders' equity figure of around 25% at H109 (YE08: 30%) is low, although the level of recoverables has been a challenge in the past and the reinsurance recoverables and goodwill as a % of equity metric will deteriorate, at least in the short-term, following the ACI acquisition.

Factor 4 - Capital Adequacy: A

Amlin had low gross underwriting leverage of around 2.2x at YE08 (YE07: 2.3x) and a high solvency margin (shareholders' equity as a % of NPW) of 133% (YE07: 112%). During 2007 and 2008, Amlin deliberately reduced its capital base via a special dividend (£43m), a B share issue (£120m), and share buy-backs (£28m), but this has been more than compensated for by net income. However, the ACI acquisition will lead to an initial deterioration for Amlin in a number of our capitalisation metrics such as gross underwriting leverage, and post-acquisition Amlin has calculated, at H109, that its headroom capital- ie the difference between available capital and the minimum that management believe is required- has reduced from around £710m to £430m. Furthermore, Amlin's gross and net catastrophe exposures are high on both an aggregate and single event PML basis. At H1 09, the potential aggregate claim from the Group's largest modelled event, a European windstorm, is equivalent to 30% of net tangible assets (NTA), although this figure is down from previous years -eg 42% at YE06. As the Group's internal economic capital model becomes more established, we anticipate placing more reliance on this indicator of capital strength.

Factor 5 - Profitability: Aa

Amlin's profitability has been very strong in recent times, driven by the significant out-performance of syndicate 2001, with a Group five year average return on equity (ROE) and combined ratio figures of 24% and 79% respectively. This is notwithstanding a much reduced ROE in 2008 of 7% as a result of the investment portfolio being impacted by the financial crisis together with hurricane losses of around \$300m, although the combined ratio remained low at 80%. In contrast, 2006 and 2007 benefited from a much more

favourable investment environment and from a lack of significant catastrophe activity which is especially relevant in light of Amlin Bermuda, with its catastrophe business orientation, trading from 2006. Performance to-date in 2009 has been much stronger than 2008, aided by a low level of natural catastrophe activity and by the strong recovery in financial markets from Q2.

FCI's operating performance in recent years has been good with a five year average ROE and combined ratio of around 20% and 94% respectively. However, the corresponding figures for 2008 were around 8.5% and 102%, and market conditions remain competitive for ACI with the business currently trading at only around a break-even underwriting level.

Factor 6 - Reserve Adequacy: Aa

Amlin has a strong history of reserve redundancies, particularly in syndicate 2001, with group prior year releases for the 2004-2008 underwriting years on average representing around 9% of net reserves. Furthermore, at H109, Amlin reported that its net claims reserves for the 2008 and prior underwriting years are more than £150m above the in-house actuarial best estimate level. Moody's notes that Amlin has a relatively small proportion of long-tail business, although believes that there is an inherent reserving challenge in light of the specialty nature of business written.

Factor 7- Financial Flexibility: A

Amlin's financial flexibility is viewed as good. Financial leverage is relatively low at around 20%, with financial debt consisting solely of subordinated issues. Earnings coverage has been very strong, averaging around 17x for the five years 2004-2008, although 2004-2005 financing costs were relatively modest as the vast majority of debt was comprised of a Lloyd's underwriting Letter of Credit on which only the commission charges were recognised as finance costs. Amlin's access to capital markets is viewed as good but not comparable to the largest European and US players.

The ACI acquisition is not expected to lead to any meaningful change in Amlin's financial leverage, with no debt being raised to fund the acquisition and FCI's financial debt limited to a Eur 30m dated subordinated instrument. Amlin's overall financial flexibility is expected to remain good notwithstanding a meaningful reduction in the amount of surplus cash following the acquisition.

Rating Factors

Amlin PLC

Financial Strength Rating Scorecard [1]	Aaa	Aa	A	Baa	< Baa	Score	[2]Adjusted Score
Business Profile						Baa	A
Market Position, Brand and Distribution (20%)						Baa	A
Relative Market Share Ratio					X		
Underwriting expense ratio % of net premiums written			X				
Product Focus and Diversification (15%)						A	A
Product Focus			X				
Product & Geographic Diversification			X				
Financial Profile						Aa	A
Asset Quality (10%)						Aaa	Aa
High Risk Assets % Invested Assets		10.5%					
Reinsurance Recoverable and Goodwill % Equity	32.5%						
Capital Adequacy (20%)						A	A
Gross Underwriting Leverage		2.2x					
Gross Natural Catastrophe Exposure				X			
Net Natural Catastrophe Exposure				X			
Profitability (10%)						Aa	Aa
Return on Average Equity (5 yr Avg)	23.6%						
Sharpe Ratio of Return on Revenue			190.4%				
Reserve Adequacy (10%)						Aaa	Aa
Loss Reserve Development as % of Reserves (5 yr Avg)	-8.8%						
A&E Funding Ratio							
Financial Flexibility (15%)						Aa	A
Financial Leverage		20.7%					
Earnings Coverage (5 yr Avg)	16.8x						
Aggregate Profile						A1	A1

[1] Information based on IFRS financial statements [2] The Scorecard rating is an important component of the company's published rating, reflecting the stand-alone financial strength before other considerations (discussed above) are incorporated into the analysis



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